

**ECONOMIC REDEVELOPMENT GROWTH ENGINE
INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF
MEMPHIS AND COUNTY OF SHELBY, TENNESSEE
AND RELATED ENTITIES**
Memphis, Tennessee

**Combined Financial Statements, Supplementary Information
and Reports of Independent Auditors**

For the Year Ended June 30, 2012

**ECONOMIC REDEVELOPMENT GROWTH ENGINE
INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF
MEMPHIS AND COUNTY OF SHELBY, TENNESSEE
AND RELATED ENTITIES**
Memphis, Tennessee

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT.....	1 - 2
FINANCIAL STATEMENTS:	
Combined Statement of Net Assets.....	3 - 4
Combined Statement of Revenues, Expenses, and Changes in Fund Net Assets.....	5
Combined Statement of Cash Flows.....	6 - 7
Notes to the Combined Financial Statements.....	8 - 21
SUPPLEMENTAL INFORMATION:	
Combining Statement of Net Assets.....	22 - 23
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets.....	24 - 25
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u>	26 - 27

INDEPENDENT AUDITORS' REPORT

Board of Directors
Economic Development Growth Engine Industrial Development Board
of the City of Memphis and County of Shelby, Tennessee and Related Entities
Memphis, Tennessee

We have audited the combined statements of net assets, statements of revenues, expenses, and changes in fund net assets, and statements of cash flows of Economic Development Growth Engine Industrial Development Board of the City of Memphis and County of Shelby, Tennessee and Related Entities (EDGE) as of and for the year ended June 30, 2012. These combined financial statements are the responsibility of the EDGE's management. Our responsibility is to express an opinion on these combined financial statements based on our audit. We did not audit the financial statements of the Memphis and Shelby County Port Commission and the Industrial Development Board of the City of Memphis and County of Shelby, which statements reflect total assets of \$110,817,923 and \$4,127,843, respectively, and total operating revenues of \$2,773,149 and \$2,172,879, respectively, for the year then ended. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Memphis and Shelby County Port Commission and the Industrial Development Board of the City of Memphis and County of Shelby, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the EDGE as of June 30, 2012, and the changes in financial position, and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2013, on our consideration of the EDGE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has not presented the management's discussion and analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was performed for the purpose of forming opinions on the combined financial statements of the EDGE taken as a whole. The accompanying combining statement of net assets and combining statement of revenues, expenses, and changes in fund net assets on page are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Banks, Finley, White & Co.

Memphis, Tennessee
May 1, 2013

**ECONOMIC REDEVELOPMENT GROWTH ENGINE
INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF
MEMPHIS AND COUNTY OF SHELBY, TENNESSEE
AND RELATED ENTITIES**

Combined Statement of Net Assets

June 30, 2012

ASSETS

	<u>2012</u>
CURRENT ASSETS:	
Cash and cash equivalents	\$ 15,121,089
Equity in cash and investment pool	1,549,606
Escrow deposits	13,157,624
Accounts receivable, net	412,461
Related party receivable	671,393
Due from the City of Memphis	730,350
Due from Shelby County	730,350
Lease receivables	1,353,857
Miscellaneous receivables	582
Prepaid expenses	<u>86,421</u>
Total Current Assets	<u>33,813,733</u>
RESTRICTED ASSETS:	
Restricted cash - Tenants security deposits	<u>47,500</u>
NON-CURRENT ASSETS:	
Property and Equipment, not being depreciated	33,962,109
Property and Equipment, being depreciated, net	19,997,305
Due from the City of Memphis	19,607,500
Due from Shelby County	19,607,500
Net investment in lease	<u>385,824</u>
Total Non-Current Assets	<u>93,560,238</u>
TOTAL ASSETS	<u>\$ 127,421,471</u>

See accompanying notes to the combined financial statements

**ECONOMIC REDEVELOPMENT GROWTH ENGINE
INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF
MEMPHIS AND COUNTY OF SHELBY, TENNESSEE
AND RELATED ENTITIES**

Combined Statement of Net Assets

June 30, 2012

(Continued)

LIABILITIES AND FUND NET ASSETS

	<u>2012</u>
CURRENT LIABILITIES:	
Accounts payable	\$ 407,252
Accrued expenses	3,350,536
Deferred revenue	1,333,446
Net premium and issuance - current	59,241
Revenue bonds - current	1,015,000
Funds held for the benefit of the City of Memphis	2,038,527
Funds held for the benefit of Shelby County	<u>2,089,316</u>
Total Current Liabilities	<u>10,293,318</u>
RESTRICTED LIABILITIES:	
Tenants security deposits	<u>47,500</u>
NON-CURRENT LIABILITIES:	
Revenue bonds	39,215,000
Net premium and issuance cost of bonds issued	<u>1,347,735</u>
Total Non-Current Liabilities	40,562,735
FUND NET ASSETS:	
Invested in capital assets, net of related debt	26,885,621
Unrestricted	49,573,297
Temporarily restricted	<u>59,000</u>
Total Fund Net Assets	<u>76,517,918</u>
TOTAL LIABILITIES AND FUND NET ASSETS	\$ <u>127,421,471</u>

See accompanying notes to the combined financial statements

**ECONOMIC REDEVELOPMENT GROWTH ENGINE
INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF
MEMPHIS AND COUNTY OF SHELBY, TENNESSEE
AND RELATED ENTITIES**

Combined Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Total 2012
OPERATING REVENUES:			
PILOT application fee	\$ 81,121	\$ -	\$ 81,121
Grant income - Memphis Tomorrow	-	80,000	80,000
Leasing and CAM income	630,232	-	630,232
Interest income	1,313	-	1,313
Charges for services	2,533,134	-	2,533,134
Closing fees	2,069,258	-	2,069,258
Lease termination fees	39,000	-	39,000
Miscellaneous income	253,339	-	253,339
Net Assets released from restrictions	<u>21,000</u>	<u>(21,000)</u>	<u>-</u>
TOTAL OPERATING REVENUES	<u>5,628,397</u>	<u>59,000</u>	<u>5,687,397</u>
OPERATING EXPENSES:			
EDGE - Management and general	303,593	-	303,593
DRC - Planning for and marketing of the development and reuse of the property	1,036,734	-	1,036,734
Port Commission - Rental operations	1,825,163	-	1,825,163
IDB - Bond closing cost	<u>3,143</u>	<u>-</u>	<u>3,143</u>
TOTAL OPERATING EXPENSES	<u>3,168,633</u>	<u>-</u>	<u>3,168,633</u>
OPERATING INCOME (LOSS)	<u>2,459,764</u>	<u>-</u>	<u>2,459,764</u>
NON-OPERATING REVENUE (EXPENSES):			
Gain (loss) on sale of property	(11,130,163)	-	(11,130,163)
Contribution - City of Memphis	(9,228,686)	-	(9,228,686)
Contribution - Shelby County	(9,228,686)	-	(9,228,686)
Contributed capital	42,140,575	-	42,140,575
Interest income	130,647	-	130,647
Payment to EDGE for revenue share	(3,572)	-	(3,572)
Interest expense	<u>(1,275,616)</u>	<u>-</u>	<u>(1,275,616)</u>
TOTAL NON-OPERATING REVENUE (EXPENSE)	<u>\$ 11,404,499</u>	<u>\$ -</u>	<u>\$ 11,404,499</u>
CHANGE IN FUND NET ASSETS	<u>\$ 13,864,263</u>	<u>\$ 59,000</u>	<u>\$ 13,923,263</u>
TOTAL FUND NET ASSETS - BEGINNING	<u>\$ 62,594,655</u>	<u>\$ -</u>	<u>\$ 62,594,655</u>
TOTAL FUND NET ASSETS - ENDING	<u>\$ 76,458,918</u>	<u>\$ 59,000</u>	<u>\$ 76,517,918</u>

See accompanying notes to the combined financial statements

**ECONOMIC REDEVELOPMENT GROWTH ENGINE
INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF
MEMPHIS AND COUNTY OF SHELBY, TENNESSEE
AND RELATED ENTITIES**

Combined Statement of Cash Flows
For the Year Ended June 30, 2012

	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 4,923,549
Cash received from other sources	241,329
Cash paid to suppliers for goods and services	(1,008,422)
Cash paid to employees for services	<u>(993,610)</u>
Net Cash Provided By (Used in) Operating Activities	<u>3,162,846</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	(29,300,764)
Debt repayment	(4,555,000)
Net proceeds (payments) of line-of-credit	(3,735,600)
Payment for bond issuance costs	(334,597)
Proceeds from the issuance of debt	42,585,941
Net proceeds from sale of capital asset	35,084,478
Interest paid on long-term debt	<u>(118,758)</u>
Net Cash Provided By (Used in) Capital and Related Financing Activities	<u>39,625,700</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Fund remittances	466,477
Payments to City of Memphis	(8,942,222)
Payments to Shelby County	(8,987,240)
Line of Credit advances to IDB	(654,893)
City of Memphis and Shelby County contributions	1,600,000
Payments to EDGE	<u>(803,572)</u>
Net Cash Provided By (Used in) Non-Capital Financing Activities:	<u>(17,321,450)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment income	130,647
Increase (decrease) in tenant security deposits	(547,209)
Maturity of certificate of deposit	<u>122,597</u>
Net Cash Provided By (Used in) Investing Activities	<u>(293,965)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	25,173,131
CASH AND CASH EQUIVALENTS AND EQUITY IN CASH AND INVESTMENT POOL AND ESCROW DEPOSITS, BEGINNING OF YEAR	<u>4,702,688</u>
CASH AND CASH EQUIVALENTS AND EQUITY IN CASH AND INVESTMENT POOL AND ESCROW DEPOSITS, END OF YEAR	\$ <u>29,875,819</u>
CASH AND CASH EQUIVALENTS, END OF YEAR CONSIST OF:	
Unrestricted cash and cash equivalents:	
Cash and cash equivalents	\$ 15,121,089
Equity in cash and investment pool	1,549,606
Escrow deposits	<u>13,157,624</u>
	29,828,319
Restricted cash and cash equivalents	<u>47,500</u>
TOTAL	\$ <u>29,875,819</u>

See accompanying notes to the combined financial statements

**ECONOMIC REDEVELOPMENT GROWTH ENGINE
INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF
MEMPHIS AND COUNTY OF SHELBY, TENNESSEE
AND RELATED ENTITIES**

Combined Statement of Cash Flows

For the Year Ended June 30, 2012

(Continued)

	<u>2012</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 2,518,765
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation/amortization expense	1,025,205
Interest expense	118,758
Adjustment to receivables for bad debt	(149,000)
(Increase) decrease in assets:	
Accounts receivables	(218,561)
Tenant accounts receivables	178,855
Lease receivables	(915,617)
Miscellaneous receivables	(137)
Prepaid expenses	(25,671)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	185,960
Due to City of Memphis	(17,884)
Accrued interest payable	(71,378)
Unearned leasing income	(66)
Deferred revenue	619,133
Accrued vacation, sick, and other leave benefits	<u>(85,516)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 3,162,846</u>
Schedule of Non-cash Operating, Investing and Capital and Related Financing Activities:	
Cost of disposal of assets financed by accrued liabilities	\$ <u>2,868,439</u>
Deferred rent recognized related to payment of expenses	\$ <u>218,000</u>
Interest on debt paid by the City of Memphis and Shelby County	\$ <u>899,875</u>
Principal on debt paid by the City of Memphis and Shelby County	\$ <u>565,000</u>

See accompanying notes to the combined financial statements

**ECONOMIC REDEVELOPMENT GROWTH ENGINE
INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF
MEMPHIS AND COUNTY OF SHELBY, TENNESSEE
AND RELATED ENTITIES**

Notes to the Combined Financial Statements
For the Year Ended June 30, 2012

NOTE 1 - ORGANIZATION:

These financial statements are a combination of the following related entities:

- The Economic Redevelopment Growth Engine Industrial Development Board of the City of Memphis and County of Shelby, Tennessee EDGE was created in January and February 2011 by Joint Resolution of the Memphis City Council and Shelby County Commission as an Industrial Development Board within the meaning of Title 7, Chapter 53, Industrial Development Corporations, codified at Tennessee Code Annotated §7-53-101; et seq., as amended from time to time. The Joint Resolution approved and directed the Industrial Development Board of the City of Memphis and County of Shelby, Tennessee (IDB), the Depot Redevelopment Corporation of Memphis and Shelby County (DRC), and the Memphis and Shelby County Port Commission (Port Commission) to take all such actions appropriate to effectuate coordination and consolidation of activities within EDGE. In addition, EDGE was given responsibility for Foreign-Trade Zone 77, the programs of the Office of Economic Development, and other functions. EDGE acts as the economic development agency for the City of Memphis and Shelby County, Tennessee. As of June 30, 2012, the entities have not completed the consolidation process.
- The IDB was incorporated on November 4, 1977, as a nonprofit organization by the City of Memphis and County of Shelby, Tennessee under the provisions of the Tennessee Industrial Corporation Act. The objective of the IDB is to assist in the financing of new business and industry and to promote local industrial expansion in Memphis and Shelby County through the issuance of industrial revenue bonds and Payment-In-Lieu-Of-Tax (PILOT) programs. The IDB's revenue is primarily derived from the related bond closing fees and PILOT program application and closing fees. The IDB is operating as a tax-exempt organization under the Internal Revenue Code Section 501(c)(4).

- The DRC was formed on February 4, 1997 by joint resolution adopted by the Memphis City Council and the County Commission of Shelby County, Tennessee and its jointly governed. The Organization is not considered to be a component unit of the City of Memphis or Shelby County because these primary governments are not considered financially accountable for the Organization. The intent of the Board is that the costs of operating the Organization on a continuing basis is recovered through leasing income. In August and September 2011, substantially all of the property owned by DRC was sold or transferred.
- The Port Commission was formed in 1947 under the Tennessee Private Acts of 1947, Chapter 500, as subsequently amended. The Port Commission's purpose is to promote regional economic development while enhancing the natural environment. The Port Commission, a joint venture between the City of Memphis and the Shelby County, is managed by a seven member Board of Commissioners. Three of the commissioners are appointed by the City and two are appointed by the County. In addition, the mayor's of the City and County may appoint representatives as ex-officio voting members of the board.

EDGE, DRC, and IDB are considered to be jointly governed by the City of Memphis and County of Shelby, TN. The Port Commission is considered to be a joint venture of the City of Memphis and County of Shelby, TN. EDGE, DRC, and IDB are considered to be special-purpose governments since their existence is used to satisfy very specific and narrow purposes.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting

The Organization consists of enterprise funds. The enterprise funds are classified as proprietary funds by GASB and are accounted for using a total economic resources measurement focus. The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises. The financial statements of the EDGE are prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred.

Pursuant to GASB Statement No. 20, as amended, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the Organization applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Except for IDB, the Organization has elected to not apply FASB Statements and Interpretations issued after November 30, 1989.

The Organization is not required to demonstrate statutory compliance with its annual operating budget. Accordingly, budgetary data is not included in the basic financial statements.

Basis of Presentation

The combined financial statements include the accounts of EDGE, DRC, IDB and the Port Commission.

All material inter-organizational transactions have been eliminated, except for IDB. IDB has a December 31 year end while EDGE, DRC and Port Commission have a June 30 year end.

Infrastructure Capital Assets

Infrastructure capital assets of the DRC consist mainly of roads, curbs and gutters, streets and sidewalks, drainage systems, landscape construction, and lighting systems and are recorded at historical cost.

Property, Plant and Equipment

Property and equipment are stated at cost. Assets having a useful life of more than one year and a cost of \$1,000 or more for DRC, or \$5,000 or more for IDB are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from 4 to 60 years. Amounts expended for maintenance and repairs are charged to expense as incurred and expenditures for major renewals and betterments are capitalized.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Equity in cash and investment pool (the "Pool") is also considered to be cash equivalents based on the pools of availability of cash.

Accounts Receivable

The EDGE provides an allowance for doubtful accounts equal to the estimated uncollectible portion. This estimate is based on historical collection experience and a periodic review of the accounts by management. The allowance for doubtful accounts was \$0 for the year ended June 30, 2012.

Deferred Revenue

Deferred revenue represents rent income that will be earned on leased buildings and tracts of land.

Contributions

Contributions of assets are recorded at fair market value at the date of receipt.

Leases

The Organization is lessor under numerous lease agreements. The leases are classified as operating leases.

Income Taxes

No provisions for federal income taxes are required since the EDGE is an agency established under the ordinances of the State of Tennessee Industrial Development Corporation Act.

Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Operating and Non-Operating Revenues

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Principal operating revenues are related to rental and leasing revenues, and closing fees. Operating expenses include cost of sales and services, administrative expenses, and depreciation on capital assets. Non-operating revenues and expenses are comprised of funds received from outside sources such as grant income, investment earnings or expenses and "fund remittances" to the City of Memphis and Shelby County. Additionally, all revenues and expenses not defined as operating are reported as non-operating revenues and expenses.

Risk Management

The EDGE, the IDB, the DRC, and the Port Commission purchase commercial insurance coverage for claims arising out of bodily injury or property damage as well as property insurance on the Organizations' property, which includes earthquake and flood coverage. There were no significant reductions in insurance coverage over the prior year. Additionally, there were no significant settlements which exceeded insurance coverages for each of the past three years.

The Port Commission participates in City of Memphis' self-insured health and medical benefits plan and the self-insured program for on-the-job injury claims.

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS:

Deposit and Investment Risks

At June 30, 2012, the EDGE, the IDB, the DRC and the Port Commission maintained accounts at several local banks. Accounts at these banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. However, for the period December 31, 2010 through December 31, 2012, FDIC coverage is unlimited on noninterest-bearing accounts. Any amounts exceeding the federal depository insurance coverage level is collateralized up to 105% of amount deposited; either with securities pledged by a financial institution held in trust in the Organization's name or classified as public funds, which is held in local government investment pools. For the year ended June 30, 2012, the amounts held at these local banks were not in excess of the insured or collateralized amount.

DRC

Each day the DRC's excess funds are swept into a temporary investment account under the terms of repurchase agreements with its financial institutions. The balances remaining in the deposit accounts are insured by federal depository insurance. The temporary investments are collateralized with securities pledged by the financial institutions. The pledged securities are held in trust by the financial institutions but not in DRC's name. As required by state statute, cash deposits in excess of Federal Deposit Insurance Corporation insurance are to be collateralized at 105%.

Credit Risks

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. The EDGE has no formal policy on managing credit risk.

IDB

The IDB's credit risks related primarily to cash, cash equivalents and accounts receivables.

DRC

The DRC has no formal policy on managing credit risk.

Custodial Credit Risks

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the EDGE will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2012, the EDGE had no temporary investments subject to repurchase agreements which were collateralized by uninsured and unregistered investments which are not in EDGE's name. The EDGE has no policy on custodial credit risk.

DRC

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the DRC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2012, the DRC had no temporary investments subject to repurchase agreements which were collateralized by uninsured and unregistered investments which are not in DRC's name. The DRC has no policy on custodial credit risk.

Interest Rate Risks

Interest rate risk is the risk that changes in market rates will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Additionally, the fair values of the investments may be highly sensitive to interest rate fluctuations. The DRC only invests excess funds on an overnight basis under the terms of a repurchase agreement. DRC limits its interest rate risk through the short-term nature of its investments.

Concentration of Credit Risks

The EDGE places no limit on the amount that it may invest in any one issuer. At June 30, 2012, the EDGE held no investments.

IDB

Revenue at December 31, 2011, is principally from closing fees associated with the PILOT programs. The closing fees account for approximately 95% of total revenue.

DRC

The DRC places no limit on the amount that it may invest in any one issuer. At June 30, 2012, the DRC held no investments.

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment, including infrastructure, consist of the following:

	Beginning	Additions	Deductions	Ending
Capital assets, not being depreciated				
Land	\$ 4,823,630	\$ -	\$ -	\$ 4,823,630
Construction in progress	-	29,138,479	-	29,138,479
Total capital assets not being depreciated	4,823,630	29,138,479	-	33,962,109
Capital assets, being depreciated				
Roadways, Streets, Utilities & Parking	16,835,324	-	(16,727,304)	108,020
Sewer & Water Construction	5,162,935	-	(5,129,809)	33,126
Fire Protection System	4,080,493	-	(4,054,310)	26,183
Landscape Construction	298,543	-	(296,627)	1,916
Maintenance/Pickup Trucks	37,417	-	(37,417)	-
Machinery, software and equipment	1,075,059	1,500	(196,051)	880,508
Furniture and Fixtures	80,587	-	(80,587)	-
Building Improvements	60,406,497	160,785	(31,036,950)	29,530,332
Buildings	767,845	-	-	767,845
Total capital assets, being depreciated	88,744,700	162,285	(57,559,055)	31,347,930
Less accumulated depreciation	(24,533,372)	(1,004,614)	14,187,361	(11,350,625)
Total capital assets, being depreciated, net	64,211,328	(842,329)	(43,371,694)	19,997,305
 NET PROPERTY, PLANT AND EQUIPMENT	 \$ 69,034,958	 \$ 28,296,150	 \$ (43,371,694)	 \$ 53,959,414

Total depreciation expense for June 30, 2012 was \$1,004,531.

As referenced in Note 1, substantially all of the DRC's property was sold. The total sales price was \$37,304,000 and total cost and accumulated depreciation was \$43,371,693, which resulted in an initial loss of \$6,067,693. Additionally, various payments were made for legal fees, grant repayments, professional fees and other expenses related to the sale totaling \$5,098,073. The total loss on the sale of property was \$11,165,766.

NOTE 5 - REVENUE BONDS:

The Port has entered into an agreement between Shelby County, the City of Memphis, and Electrolux to fund the construction of the Electrolux facility with the use of debt issued by both the County and the City. The County and the City each guarantee the debt, which is payable solely from the County's and City's covenants to timely appropriate from legally available non-ad valorem revenues, although the debt is in the name of the Port Commission and is being held on the financial statements of the Port. The Port is under no obligation to pay the debt principal or interest. To reflect that the Port has no obligation to pay the debt, receivables from the City of Memphis and Shelby County have been booked for the principal and will be booked for the interest as it becomes due. Coupon rates on the 24-year, 7-month bonds range from 2.0% to 5.25% over the lives of the bonds.

Future amortizations of debt principal and interest expense related to such are as follows for the years ending June 30:

	Principal	Interest	Total
2013	\$ 1,015,000	\$ 1,782,800	\$ 2,797,800
2014	1,050,000	1,752,350	2,802,350
2015	1,080,000	1,720,850	2,800,850
2016	1,125,000	1,676,850	2,801,850
2017	1,145,000	1,654,350	2,799,350
Thereafter	<u>34,815,000</u>	<u>18,381,650</u>	<u>53,196,650</u>
Total	<u>\$ 40,230,000</u>	<u>\$ 26,968,850</u>	<u>\$ 67,198,850</u>

The long-term liability activity for the year ended June 30, 2012 was as follows:

DESCRIPTION	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	\$ -	\$ 40,795,000	\$ (565,000)	\$ 40,230,000	\$ 1,015,000
Net premium and issuance costs	-	<u>1,456,344</u>	<u>(49,368)</u>	<u>1,406,976</u>	<u>59,241</u>
TOTAL	<u>\$ -</u>	<u>\$ 42,251,344</u>	<u>\$ (614,368)</u>	<u>\$ 41,636,976</u>	<u>\$ 1,074,241</u>

NOTE 6 - CONTINGENCIES AND COMMITMENTS:

In the normal course of operations, the EDGE is subject to claims and litigation. Management is of the opinion that, based on information presently available, no matters exist that would have a material adverse effect on the financial position and results of operations of the EDGE.

Port Commission

The Port Commission contracted with Memphis Light, Gas & Water ("MLGW") for the installation of facilities relating to the development of Frank C. Pidgeon Industrial Park. MLGW originally claimed that the Port Commission owed an additional \$963,000 for the utility installations. MLGW has since reduced their claim by \$250,000. The Port Commission is disputing the remaining amount of \$713,000. Since the ultimate amount to be paid to MLGW, if any, cannot be determined at this time, no amount relating to this claim has been recorded in the financial statements.

DRC

As of June 30, 2012, the DRC receives a portion of its revenue from government grants and contracts, all of which are subject to audit by government agencies. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to and audited by government agencies. Until such audits have been completed an final settlement

reached, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audit, except that a Department of Commerce, Economic Development Administration (EDA) grant received by DRC in prior years may require partial payment of funds to cover any potential claims made by EDA as a result of the sale of DRC property. As of June 30, 2012, the contingencies mentioned above no longer exist, due to the sale of property.

In the normal course of operations, the DRC is subject to claims and litigation. Management is of the opinion that, based on information presently available, no matters exist that would have a material adverse effect on the financial position and results of operation of the DRC.

As of June 30, 2012, the DRC has one remaining Agreement of Purchase and Sale with current tenants. The Agreement is expected to close by January 31, 2012. The Agreement provides for certain termination, default, inspection and title provisions.

The DRC is liable to return any excess funds not reinvested in the property to the Department of the Army. The definition of excess funds and the amount and timing of any refund are subject to the terms of the Memorandum of Agreement dated December 16, 2001. As of June 30, 2012, accrued liabilities of \$2,744,398 is due to the Department of Commerce.

In connection with the repayment of funds to the EDA, the DRC has a potential liability of \$801,000 concerning certain public utilities. An escrow account, in the amount of \$801,000, was created subsequent to June 30, 2012. Additionally, \$135,000 was subsequently paid to the Delta Regional Authority with funds received from the sale of property.

NOTE 7 - RETIREMENT PLANS:

Port Commission Plan Description

Employees of the Port Commission are members of the City of Memphis Retirement System (the "Retirement System"), a single employee defined benefit pension plan administered by the Board of Administration under the direction of the Mayor. Benefits are determined by a formula using the member's twelve-month average salary and years of service. Although the Port Commission is a separate entity, Plan benefits have not been allocated to employees of the Port Commission. Consequently, disclosures will follow guidelines for cost sharing, multiple employer public employee retirement systems. The Retirement System is established under Chapter 25, Code of Ordinances, City of Memphis, Tennessee. The Retirement System is included in the City's general purpose financial statements as a pension trust fund. That report may be obtained by writing to the City of Memphis, Comptroller's Office, 125 N. Main Street, Memphis, TN , 38103.

Port Commission Plan Participation

Substantially, all full-time salaried employees are required to participate in one of two contributory defined benefit pension plans (the "Plans"). The 1948 Plan is for salaried employees hired before July 1, 1978, and the 1978 Plan is for salaried employees hired thereafter. Permanent, full-time employees in job classifications covered by contract with the Social Security Administration are not participants of the Retirement System as they are covered under the Federal Insurance Contribution Act (Social Security). The Port Commission's payroll for employees covered by the Plans was \$348,117 and \$299,905 for the years ended June 30, 2012 and 2011, respectively.

Total payroll was \$378,721 and \$326,948 for the years ended June 30, 2012 and 2011, respectively.

Port Commission Plan Benefits

The Plans provide retirement benefits as well as death benefits. Members of the 1948 plan are eligible for retirement after the earlier of 25 years of service or at age sixty with ten years of service. Members of the 1978 plan become eligible for retirement after the earlier of 25 years of service, after age sixty with ten years of service, or after age sixty-five with five years of service.

Port Commission Funding Policy

Plan members hired before 1978 are required to contribute 5% and members hired after 1978 are required to contribute 8% of their annual covered salary at June 30, 2012 and 2011. The contribution requirements of plan participants and the Port Commission are established and may be amended by the Board of Administration.

Port Commission Annual Pension Cost

For the years ended June 30, 2012 and 2011, the Port Commission's contributions to the Plans of \$27,849, \$23,992, and \$34,633, respectively, were equal to the required contributions for each year.

DRC Plan Description

The DRC participates in the City of Memphis Retirement System. Although the DRC is a separate entity, plan benefits have not been allocated to employees of the DRC. Consequently, disclosures will follow guidelines for cost-sharing, multiple employer public employee retirement systems. The Retirement System is established under Chapter 25, Code of Ordinances, City of Memphis, Tennessee and is administered by a Board of Administration under the direction of the Mayor. The Retirement System is included in the City's general purpose financial statements as a pension trust fund. That report may be obtained by writing to the City of Memphis, Comptroller's Office, 125 N. Main Street, Memphis, TN 38103.

Substantially all full-time salaried employees are required to participate in one of two contributory defined benefit pension plans (the Plans). Plan A is for salaried employees hired prior to July 1, 1978, and Plan B is for salaried employees hired thereafter. Hourly employees are eligible for coverage under a supplemental retirement plan based on their wages under the Federal Insurance Contribution Act (Social Security). The DRC's payroll for all employees covered by the plans was \$44,802 and \$67,486 for the years ended June 30, 2012 and June 30, 2011.

The Plans provide retirement benefits as well as death and disability benefits. Retirement benefits vest after ten years of service. General employees under Plan A may retire after completion of twenty-five years of service or, if earlier, after age sixty and completion of ten years of service. Under Plan B, general employees may retire after completion of 25 years of service or if earlier, after meeting any of the following:

- (1) After age sixty-five and the completion of five years of service
- (2) After age sixty and the completion of ten years of service

DRC Funding Policy

Plan members are required to contribute 5% and 8% for Plan A and Plan B, respectively, of their annual covered salary, and the DRC is required to contribute the remaining amount necessary to fund the Plan, using the actuarial basis specified by statute. The contribution requirements of Plan members and the DRC are established and may be amended by the Board of Administration. The DRC's contributions to the Plan for the years ended June 30, 2012 and June 30, 2011 were \$2,733 and \$4,023, respectively, equal to the required contributions for each year.

Per the substantial sale of property that occurred in August and September 2011, no DRC employees are part of the City of Memphis Retirement System. As of June 30, 2012, there were no DRC staff or contract employees.

NOTE 8 - NET INVESTMENT IN LEASE:

In 2000, the Port Commission entered a thirty-year lease-purchase agreement to sell land to another party. The agreement provides for annual payments of \$81,920 for the first ten years, \$90,108 for the next ten years, \$99,120 for the final ten year period, and a balloon payment of \$1,024,000 at the end of the lease term. Title of the property transfers at the end of the lease term. The lease is accounted for by the Port Commission as a sales-type-lease. The transaction resulted in a gain on the sale of \$1,475,923 that will be recognized over the life of the lease using the installment method of gain recognition. The net investment in lease consists of the following at June 30, 2012:

Total minimum lease payments	\$ 2,781,183
Less amounts representing interest	<u>(1,332,111)</u>
Gross investment in lease	1,449,072
Less unearned income	<u>(1,063,248)</u>
Net investment in lease	\$ <u>385,824</u>

NOTE 9 - LEASES:Port CommissionLessor

The Port Commission has entered into various operating leases for the rental of buildings and tracts of land. Future minimum rental income under operating leases that have initial or noncancellable lease terms in excess of one year is due as follows for the years ended June 30, 2012:

2013	\$ 2,281,391
2014	2,123,468
2015	1,671,303
2016	1,392,998
2017	1,102,821
Thereafter	<u>928,711</u>
Total	\$ <u>9,500,692</u>

DRC

The DRC leases certain warehouse and office space to various leases based on a fixed-fee and a percentage of the DRC's operating costs of common-areas (CAM). The lease terms range from 2 to 6 years. Lease income for the year ended June 30, 2012 is shown net of rent credits of \$25,000. The following is a schedule of anticipated minimum future revenues on non-cancelable agreements:

Schedule of Anticipated Minimum Future Revenues

<u>Year</u>	<u>As of June 30, 2012</u>
June 30, 2013	\$ 56,592
June 30, 2014	56,592
June 30, 2015	56,592
June 30, 2016	56,592
June 30, 2017	56,592
Thereafter	-
Total	<u>\$ 282,960</u>

Lessee

The DRC leases various office and warehouse equipment for use in operations. The leases are month to month. Equipment leases expenses were \$1,973 for June 30, 2012.

NOTE 10 - RELATED PARTIES:

In April 2012, a revolving line-of-credit agreement was executed between the DRC and IDB, in which a total of \$2,500,000 is available for the DRC to lend the IDB. Repayment, unless extended, shall be made by the maturity date of December 31, 2015. The line-of-credit carries a 0% interest rate. As of June 30, 2012, a related party receivable of \$654,893 is due from the IDB to the DRC.

As of June 30, 2012, a related party receivable of \$16,500 is due from the IDB to the EDGE. A related party receivable of \$1,042,552 is due from the Port Commission to the EDGE.

NOTE 11 - SUBSEQUENT EVENTS:

EDGE

Subsequent to June 30, 2012, Shelby County voluntarily contributed \$6,700,000 and the City of Memphis voluntarily contributed \$2,500,000. Both contributions were to intended to give EDGE the resources to fulfill its missions. An agreement between the EDGE and the City of Memphis was consummated that outlines the City of Memphis' intent to provide additional funds over the next two fiscal years.

IDB

The IDB adopted the Subsequent Events topic of FASB Accounting Standards Codification (ASC) 855, which requires disclosure of the date through which subsequent events have been evaluated. Management has performed an evaluation of the IDB's activity through June 26, 2012, the audit report date, has concluded that there are no significant subsequent events requiring disclosure through the date these financial statements were issued.

Port Commission

Management has evaluated its June 30, 2012 financial statements for subsequent events through December 31, 2012, the date the financial statements were available to be issued. Beginning January 1, 2013, all but one employee of the Port Commission will become full time employees of EDGE. EDGE will be responsible for the salaries of these employees, but the Port Commission will be paying EDGE for staffing and administrative services.

SUPPLEMENTAL INFORMATION

**ECONOMIC REDEVELOPMENT GROWTH ENGINE
INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF
MEMPHIS AND COUNTY OF SHELBY, TENNESSEE
AND RELATED ENTITIES**

Combining Statement of Net Assets
For the Year Ended June 30, 2012

	EDGE	DEPOT	PORT COMMISSION	12/31/11 IDB	Eliminations	Combined
CURRENT ASSETS:						
Cash and cash equivalents	\$ 1,445,543	\$ 9,960,164	\$ -	\$ 3,715,382	\$ -	\$ 15,121,089
Equity in cash and investment pool	-	-	1,549,606	-	-	1,549,606
Escrow deposits	-	-	13,157,624	-	-	13,157,624
Accounts receivable	-	-	-	412,461	-	412,461
Related party receivable	1,059,052	654,893	-	-	(1,042,552)	671,393
Due from City of Memphis	-	-	730,350	-	-	730,350
Due from Shelby County	-	-	730,350	-	-	730,350
Lease receivables	-	-	1,353,857	-	-	1,353,857
Miscellaneous receivables	-	-	582	-	-	582
Prepaid expenses	<u>75,953</u>	<u>10,468</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>86,421</u>
Total Current Assets	<u>2,580,548</u>	<u>10,625,525</u>	<u>17,522,369</u>	<u>4,127,843</u>	<u>(1,042,552)</u>	<u>33,813,733</u>
RESTRICTED ASSETS:						
Restricted cash - Tenants security deposits	<u>-</u>	<u>47,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,500</u>
NON-CURRENT ASSETS:						
Property and Equipment, not being depreciated,	-	-	33,962,109	-	-	33,962,109
Property and Equipment, being depreciated, net	1,417	263,267	19,732,621	-	-	19,997,305
Due from City of Memphis	-	-	19,607,500	-	-	19,607,500
Due from Shelby County	-	-	19,607,500	-	-	19,607,500
Net investment in lease	<u>-</u>	<u>-</u>	<u>385,824</u>	<u>-</u>	<u>-</u>	<u>385,824</u>
Total Non-Current Assets	<u>1,417</u>	<u>263,267</u>	<u>93,295,554</u>	<u>-</u>	<u>-</u>	<u>93,560,238</u>
TOTAL ASSETS	<u>\$ 2,581,965</u>	<u>\$ 10,936,292</u>	<u>\$ 110,817,923</u>	<u>\$ 4,127,843</u>	<u>\$ (1,042,552)</u>	<u>\$ 127,421,471</u>

**ECONOMIC REDEVELOPMENT GROWTH ENGINE
INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF
MEMPHIS AND COUNTY OF SHELBY, TENNESSEE
AND RELATED ENTITIES**

Combining Statement of Net Assets

For the Year Ended June 30, 2012

(Continued)

LIABILITIES AND NET ASSETS

	EDGE	DEPOT	PORT COMMISSION	12/31/11 IDB	Eliminations	Combined
CURRENT LIABILITIES:						
Accounts payable	\$ 130,021	\$ 168,785	\$ 108,446	\$ -	\$ -	\$ 407,252
Accrued expenses	16,486	2,744,398	589,652	-	-	3,350,536
Deferred revenue	-	-	1,333,446	-	-	1,333,446
Due to EDGE	-	-	1,042,552	-	(1,042,552)	-
Net premium and issuance - current	-	-	59,241	-	-	59,241
Revenue bonds - current	-	-	1,015,000	-	-	1,015,000
Funds held for the benefit of the City of Memphis	-	-	-	2,038,527	-	2,038,527
Funds held for the benefit of Shelby County	-	-	-	2,089,316	-	2,089,316
TOTAL CURRENT LIABILITIES	<u>146,507</u>	<u>2,913,183</u>	<u>4,148,337</u>	<u>4,127,843</u>	<u>(1,042,552)</u>	<u>10,293,318</u>
RESTRICTED LIABILITIES						
Tenants security deposits	-	47,500	-	-	-	47,500
NON-CURRENT LIABILITIES						
Revenue bonds	-	-	39,215,000	-	-	39,215,000
Net premium and issuance costs of bonds issued	-	-	1,347,735	-	-	1,347,735
TOTAL NON-CURRENT LIABILITIES	<u>-</u>	<u>-</u>	<u>40,562,735</u>	<u>-</u>	<u>-</u>	<u>40,562,735</u>
FUND NET ASSETS:						
Invested in capital assets, net of related debt	-	263,267	26,622,354	-	-	26,885,621
Unrestricted	2,376,458	7,712,342	39,484,497	-	-	49,573,297
Temporarily Restricted	59,000	-	-	-	-	59,000
Total Net Assets	<u>2,435,458</u>	<u>7,975,609</u>	<u>66,106,851</u>	<u>-</u>	<u>-</u>	<u>76,517,918</u>
TOTAL LIABILITIES AND FUND NET ASSETS	<u>\$ 2,581,965</u>	<u>\$ 10,936,292</u>	<u>\$ 110,817,923</u>	<u>\$ 4,127,843</u>	<u>\$ (1,042,552)</u>	<u>\$ 127,421,471</u>

**ECONOMIC REDEVELOPMENT GROWTH ENGINE
INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF
MEMPHIS AND COUNTY OF SHELBY, TENNESSEE
AND RELATED ENTITIES**

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended June 30, 2012

	EDGE	DRC	PORT COMMISSION	12/31/11 IDB	Eliminations	Combined
OPERATING REVENUES:						
Pilot application fee	\$ 16,500	\$ -	\$ -	\$ 64,621	\$ -	\$ 81,121
Grant income - Memphis Tomorrow	80,000	-	-	-	-	80,000
Leasing and CAM income	-	630,232	-	-	-	630,232
Interest income	-	1,313	-	-	-	1,313
Charges for services	-	-	2,533,134	-	-	2,533,134
Closing fees	-	-	-	2,069,258	-	2,069,258
Lease termination fees	-	-	-	39,000	-	39,000
Miscellaneous income	-	13,324	240,015	-	-	253,339
Total operating revenues	<u>\$ 96,500</u>	<u>\$ 644,869</u>	<u>\$ 2,773,149</u>	<u>\$ 2,172,879</u>	<u>\$ -</u>	<u>\$ 5,687,397</u>
OPERATING EXPENSES:						
Advertising	\$ -	\$ 6,000	\$ -	\$ -	\$ -	\$ 6,000
Accounting	-	58,201	-	-	-	58,201
Audit	-	22,000	-	-	-	22,000
Bad debt	-	37,263	-	-	-	37,263
Bank charges	324	26	-	-	-	350
Brokerage fees	-	36,197	-	-	-	36,197
Meeting expense	682	-	-	-	-	682
Computer support	1,320	-	-	-	-	1,320
Computer - Internet	682	-	-	-	-	682
Depreciation/Amortization	83	252,023	773,099	-	-	1,025,205
Interest	-	47,381	-	-	-	47,381
Payroll Service Fees	3,038	-	-	-	-	3,038
Payroll Taxes	11,282	-	-	-	-	11,282
Salaries and benefits	146,862	256,043	476,628	-	-	879,533
Consulting	-	-	-	3,053	-	3,053
Consulting - Non-PILOT	18,000	-	-	-	-	18,000
Dues/memberships	875	16,765	-	-	-	17,640
Employment benefits	10,677	-	-	-	-	10,677
PILOT - Professional Fees	8,680	-	-	-	-	8,680
Telephone	1,075	11,457	-	-	-	12,532
Utilities	-	28,778	-	-	-	28,778
Insurance	10,934	49,685	-	-	-	60,619
Contractor services	21,000	-	-	-	-	21,000
Office Supplies	3,871	8,860	500,891	-	-	513,622
Office Services	515	800	-	-	-	1,315
Lawn Services	-	68,358	-	-	-	68,358

**ECONOMIC REDEVELOPMENT GROWTH ENGINE
INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF
MEMPHIS AND COUNTY OF SHELBY, TENNESSEE
AND RELATED ENTITIES**

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended June 30, 2012
(Continued)

	EDGE	DEPOT	PORT COMMISSION	12/31/11 IDB	Eliminations	Combined
Maintenance & Repairs	-	44,963	-	-	-	44,963
Meals & Entertainment	1,946	-	-	-	-	1,946
Rent - Equipment	4,029	4,987	-	-	-	9,016
Professional fees	50,334	20,623	-	-	-	70,957
Security	-	15,056	-	-	-	15,056
Software purchased and computer support	-	5,014	-	-	-	5,014
Staff Recruitment	5,150	-	-	-	-	5,150
Temporary help-intern	-	33,916	-	-	-	33,916
Parking	233	-	-	-	-	233
Workers Comp & Risk Management	384	-	-	-	-	384
Travel	1,617	111	-	-	-	1,728
Training & Conferences	-	133	-	-	-	133
Federal grant expenditures	-	-	74,545	-	-	74,545
Miscellaneous	-	12,094	-	90	-	12,184
Total operating expenses	<u>303,593</u>	<u>1,036,734</u>	<u>1,825,163</u>	<u>3,143</u>	<u>-</u>	<u>3,168,633</u>
NON-OPERATING REVENUE (EXPENSES):						
Gain (loss) on sale of property	-	(11,165,766)	35,603	-	-	(11,130,163)
Contribution - City of Memphis	800,000	(8,942,222)	-	(1,086,464)	-	(9,228,686)
Contribution - Shelby County	800,000	(8,942,222)	-	(1,086,464)	-	(9,228,686)
Contributed capital	-	-	42,140,575	-	-	42,140,575
Interest income	-	-	127,455	3,192	-	130,647
Payment to EDGE for revenue share	-	-	(1,046,124)	-	1,042,552	(3,572)
Transfers to EDGE	1,042,552	-	-	-	(1,042,552)	-
Interest expense	-	-	(1,275,616)	-	-	(1,275,616)
Total non-operating revenue (expenses)	<u>\$ 2,642,552</u>	<u>\$ (29,050,210)</u>	<u>\$ 39,981,893</u>	<u>\$ (2,169,736)</u>	<u>\$ -</u>	<u>\$ 11,404,499</u>
CHANGE IN FUND NET ASSETS	<u>\$ 2,435,459</u>	<u>\$ (29,442,075)</u>	<u>\$ 40,929,879</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,923,263</u>
TOTAL FUND NET ASSETS--BEGINNING	<u>\$ -</u>	<u>\$ 37,417,684</u>	<u>\$ 25,176,971</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 62,594,655</u>
TOTAL FUND NET ASSETS--ENDING	<u>\$ 2,435,459</u>	<u>\$ 7,975,609</u>	<u>\$ 66,106,850</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,517,918</u>

REPORT ON INTERNAL CONTROL AND COMPLIANCE

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Economic Development Growth Engine Industrial Development Board
of the City of Memphis and County of Shelby, Tennessee and Related Entities
Memphis, Tennessee

We have audited the combined financial statements of EDGE as of and for the year ended June 30, 2012 and have issued our report thereon dated May 1, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the EDGE is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered EDGE's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the EDGE's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the EDGE's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the EDGE's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether EDGE's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Banks Finley White & Co.

Memphis, Tennessee
May 1, 2013